

**Deloitte &
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Deloitte Touche
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International



Company Registration No. 2706333

VOLUNTEER ENERGY LIMITED

Report and Financial Statements

30 September 1995

**Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN**



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REPORT AND FINANCIAL STATEMENTS 1995

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REPORT AND FINANCIAL STATEMENTS 1995

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J D Ryan
R L Ennis
J D Johnson
A W Bowman

JOINT SECRETARIES

J D Johnson
J D Ryan

REGISTERED OFFICE

Hollinswood House
Stafford Park 1
Telford
Shropshire
TF3 3DD

BANKERS

Barclays Bank PLC
160 Piccadilly
London
W1A 2AB

SOLICITORS

Moss & Poulson
4 Claremont Bank
Shrewsbury
SY1 1RS

Climaco, Climaco, Seminatore, Leftouritz & Barofoli Co LPA
1226 Euclid Avenue
Cleveland
Ohio 44115
USA

AUDITORS

Deloitte & Touche
Chartered Accountants
Colmore Gate
2 Colmore Gate
Birmingham
B3 2BN



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 1995.

ACTIVITIES

The principal activities of the company are the purchase and supply of natural gas and electricity to industrial and commercial customers.

REVIEW OF THE BUSINESS

The results of the year are set out in the profit and loss account on page 6.

Over fiscal year 1995 the company has placed an emphasis on providing management services for its customers' energy needs. Staff additions were made to provide quality services to an increasing customer base. Commissions generated from managing the electricity and gas supplies for our customers were offset by reduced margins realised from the gas supply business. Excess supplies within the natural gas market combined with heightened competition severely tightened margins as contracts came up for renewal. A change of gas customers occurred during the winter season resulting in a reduction of gas shipped to our customers over the year. Therefore turnover was reduced by approximately 32%, while gross profit was reduced by only 3%. The staff additions and resultant overhead costs associated with maintaining more employees increased administrative expenses by approximately 30%. The company incurred a loss for the fiscal year due to the combination of the above factors.

The company is in the process of renegotiating gas supply contracts, looking for those contracts to be more reflective of market conditions and the changing rules governing the natural gas industry. Some gas supply contracts call for take-or-pay obligations. This topic is part of the negotiation process. The effect of valuing the company's take-or-pay obligations at 30 September 1995 based upon the renegotiations range from possible future benefit to an additional loss of approximately £215,000 (see note 2).

No dividends were declared during the fiscal year. Additional financing was made available from our parent company in the fashion of an inter-company loan payable on demand of approximately £155,000. The company also maintains an overdraft facility with its banker for temporary financing requirements.

The company is continuing to pursue expansion in the emerging Eastern Europe energy market. Western Europe also shows interest in developing a competitive energy market which the company anticipates it will expand into as access is allowed into the natural gas and electricity sectors.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend. The loss for the year of £18,084 (1994 - profit £65,424) has been transferred to reserves.

FIXED ASSETS

Movements in fixed assets are shown in note 8 to the accounts.



DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors, who served throughout the year, are:

J D Ryan
R L Ennis
J D Johnson
A W Bowman (appointed 26 May 1995)

No director has any beneficial interests in the shares of the company.

Directors' interests in the common stock of the parent company, Volunteer Energy Corporation, at 30 September 1994 (or date of appointment) and 30 September 1995 were:

	1995	1994
	Shares	(or date of appointment) Shares
J D Ryan	-	-
R L Ennis	500	500
J D Johnson	583	583
A W Bowman	-	-

AUDITORS

On 1 February 1996 our auditors changed the name under which they practise to Deloitte & Touche and accordingly, have signed their report in their new name. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

A W Bowman

Director

29 July 1996



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Chartered Accountants

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

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AUDITORS' REPORT TO THE MEMBERS OF

VOLUNTEER ENERGY LIMITED

We have audited the financial statements on pages 6 to 14 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the accounts concerning the uncertainty as to the continuation of support by the company's ultimate parent undertaking, Volunteer Energy Corporation. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Qualified opinion arising from disagreement about accounting treatment

The company has included take-or-pay gas in stocks and trade creditors at a value of £603,000, which is the net realisable value of the gas, whereas the company has been invoiced for a value of £818,000. Additionally, no provision has been made for foreseeable future losses relating to these purchase contracts, which amount to £364,000.

The company is currently in the process of renegotiating its gas purchase contracts and the values recorded in the accounts reflect the directors' estimate of the future conclusion of these negotiations.

Accordingly in our opinion, the amounts shown in the financial statements for trade creditors and provisions are understated by £215,000 and £364,000 respectively, and the profit and loss reserve is overstated, and loss for the financial year understated, by £579,000.

Aberdeen, Bath, Belfast, Birmingham, Bournemouth, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Dartford, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners' names is available:
Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.





AUDITORS' REPORT TO THE MEMBERS OF

VOLUNTEER ENERGY LIMITED (continued)

Qualified opinion arising from disagreement about accounting treatment (continued)

Except for the failure to provide for the full value of the purchase invoice and the absence of the provision for foreseeable future losses described above, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

30 July 1996


PROFIT AND LOSS ACCOUNT
Year ended 30 September 1995

	Note	1995 £	1994 £
TURNOVER	3	3,102,920	4,557,975
Cost of sales		(2,718,182)	(4,162,195)
Gross profit		384,738	395,780
Administrative expenses		(406,635)	(310,648)
OPERATING (LOSS)/PROFIT	5	(21,897)	85,132
Bank interest receivable		3,706	4,405
Interest payable and similar charges	6	(6,693)	(10,613)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(24,884)	78,924
Tax on (loss)/profit on ordinary activities	7	6,800	(13,500)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION BEING (LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u>(18,084)</u>	<u>65,424</u>

STATEMENT OF MOVEMENT ON RESERVES
Year ended 30 September 1995

	Profit and loss account £
Balance at 1 October 1994	22,302
Retained loss for the year	(18,084)
Balance at 30 September 1995	<u>4,218</u>

All activities derive from continuing operations.

There are no material recognised gains and losses other than the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.

BALANCE SHEET
30 September 1995

	Note	£	1995 £	£	1994 £
FIXED ASSETS					
Tangible assets	8		71,263		43,242
CURRENT ASSETS					
Stocks	9	619,108		326,177	
Debtors	10	911,561		554,710	
Cash at bank and in hand		120		108,786	
		1,530,789		989,673	
CREDITORS: amounts falling due within one year	11	(1,444,774)		(855,151)	
NET CURRENT ASSETS			86,015		134,522
TOTAL ASSETS LESS CURRENT LIABILITIES			157,278		177,764
CREDITORS: amounts falling due after more than one year	12		(8,060)		(10,462)
			149,218		167,302
CAPITAL AND RESERVES					
Called up share capital	13		145,000		145,000
Profit and loss account			4,218		22,302
EQUITY SHAREHOLDERS' FUNDS	14		149,218		167,302

These financial statements were approved by the Board of Directors on *29 July 1996*
 Signed on behalf of the Board of Directors

Arthur W. Bowman

A W Bowman
 Director

NOTES TO THE ACCOUNTS
Year ended 30 September 1995

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Depreciation is provided on the assets in equal annual instalments over their estimated useful lives. The rates of depreciation are as follows:

Leasehold improvements	over the period of the lease
Motor vehicle	25%
Fixtures, fittings and office equipment	25%

Stocks

Stocks, which represent natural gas to be delivered by suppliers, have been valued at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a consistent rate of charge on the remaining balance of the obligation.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

2. BASIS OF PREPARATION

The company is and has been party to gas supply contracts that have take-or-pay terms that allow extended take periods. These contracts have been used to meet the company's winter/heating season peaking gas supply needs. The company has recognised that take-or-pay gas as stock at the time that the contracts designated the gas as a take-or pay obligation.

The gas market and regulatory conditions that evolved during fiscal year 1995 called certain gas supply contracts into question. Negotiations regarding those contracts were started to reflect undertakings and representations previously made to the company along with performance factors by parties involved with those contracts.

These contracts under their terms at 30 September 1995 would oblige the company to take-or-pay gas volumes. Those volumes when valued at the cost stipulated in the contracts are potentially in excess of the net realisable value that the company expects it could receive from its customers by approximately £215,000. It is the company's opinion that the contracts and their terms are contingent upon the negotiation results. The company has recorded these possible take-or-pay obligations at 30 September 1995 as stock at net realisable value which in the company's opinion represents a reasonable value that reflects the negotiation process. In addition some of these contracts have terms that extend beyond 30 September 1995, the volumes applicable to that future period when valued at cost would be in excess of the net realisable value as determined at 30 September 1995 by approximately £364,000.

NOTES TO THE ACCOUNTS
Year ended 30 September 1995

2. BASIS OF PREPARATION (continued)

The company since its inception in 1992 has relied upon its parent company, Volunteer Energy Corporation, to provide financial support in form of guarantees, line-of-credit or other features. The parent company has committed to continue to provide the financial support needed to allow the company to continue functioning as a going concern irrespective of the gas supply contracts negotiations. The natural gas marketing business is recognised as cyclical in nature in reference to profitability. The company has recognised this feature of its business and has always looked toward the long-term for its involvement in natural gas marketing.

On this basis the directors consider that it is appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from the withdrawal of support of the company's parent undertaking.

3. TURNOVER

Turnover represents amounts derived from the company's ordinary activities, excluding value added tax. The turnover and profit are attributable to the principal activities of the company.

All sales were made to customers in the United Kingdom.

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1995 £	1994 £
Directors' emoluments		
Fees	-	-
Other emoluments	105,645	83,514
	<u>105,645</u>	<u>83,514</u>
Remuneration of the chairman	-	-
Remuneration of the highest paid director	66,000	70,000
	<u>66,000</u>	<u>70,000</u>
	No	No
Scale of other director's remuneration		
£ 0 - £ 5,000	1	1
£ £20,001 - £ 25,000	1	-
	<u>1</u>	<u>-</u>
Average number of persons employed (including directors)		
Sales and distribution	5	4
Administration	7	5
	<u>12</u>	<u>9</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	241,233	159,744
Social security costs	25,412	16,104
	<u>266,645</u>	<u>175,848</u>


NOTES TO THE ACCOUNTS
Year ended 30 September 1995
5. OPERATING (LOSS)/PROFIT

	1995	1994
	£	£
The operating (loss)/profit is stated after charging:		
Depreciation and amortisation		
Owned assets	14,177	7,953
Assets held under a finance leases	5,448	789
Loss on disposal of fixed assets	380	-
Rentals under operating leases		
Equipment	1,427	75
Land and buildings	40,754	22,460
Auditors' remuneration		
Audit services	2,500	2,500
	<u>2,500</u>	<u>2,500</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1995	1994
	£	£
Bank loans, overdrafts and other loans repayable		
within five years	2,655	1,444
Finance charges - finance leases	1,671	400
Other interest	2,367	8,769
	<u>6,693</u>	<u>10,613</u>

7. TAX ON PROFIT OR LOSS ON ORDINARY ACTIVITIES

	1995	1994
	£	£
Corporation tax (recoverable)/charge based on the results of the		
year at 25% (1994 - 33%)	(6,800)	13,500
	<u>(6,800)</u>	<u>13,500</u>


NOTES TO THE ACCOUNTS
Year ended 30 September 1995
8. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Motor vehicles £	Fixtures, fittings and office equipment £	Total £
Cost				
At 1 October 1994	-	25,550	30,305	55,855
Additions	10,556	7,900	29,570	48,026
Disposals	-	-	(1,017)	(1,017)
At 30 September 1995	10,556	33,450	58,858	102,864
Accumulated depreciation				
At 1 October 1994	-	4,237	8,376	12,613
Charge for the year	991	8,198	10,436	19,625
Disposals	-	-	(637)	(637)
At 30 September 1995	991	12,435	18,175	31,601
Net book value				
At 30 September 1995	9,565	21,015	40,683	71,263
At 30 September 1994	-	21,313	21,929	43,242

The net book value of fixed assets includes £16,692 (1994 - £15,605) in respect of assets held under finance leases.

9. STOCKS

	1995 £	1994 £
Natural gas	619,108	326,177

10. DEBTORS

Amounts falling due within one year	1995 £	1994 £
Trade debtors	851,231	473,258
Other debtors	43,520	55,092
Prepayments and accrued income	16,810	26,360
	911,561	554,710

NOTES TO THE ACCOUNTS
Year ended 30 September 1995

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1995 £	1994 £
Bank overdraft	126,711	-
Obligations under finance leases	6,089	3,556
Trade creditors	1,132,259	735,700
Amounts owed to group undertakings	157,198	7,589
Corporation tax	-	13,500
Other taxes and social security	8,065	67,044
Other creditors	-	1,629
Accruals and deferred income	14,452	26,133
	<u>1,444,774</u>	<u>855,151</u>

The bank overdraft facilities are secured by a letter of credit from the parent company, Volunteer Energy Corporation and is repayable on demand.

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1995 £	1994 £
Obligations under finance leases repayable:		
Between one and two years	8,060	2,929
Between two and five years	-	7,533
	<u>8,060</u>	<u>10,462</u>

13. CALLED UP SHARE CAPITAL

	1995 £	1994 £
Authorised		
1,000,000 Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Called up, allotted and fully paid		
145,000 Ordinary shares of £1 each	<u>145,000</u>	<u>145,000</u>


NOTES TO THE ACCOUNTS
Year ended 30 September 1995
14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1995 £	1994 £
(Loss)/profit for the financial year	(18,084)	65,424
New share capital subscribed	-	85,000
Net (deduction from)/addition to shareholders' funds	(18,084)	150,424
Opening shareholders' funds	167,302	16,878
Closing shareholders' funds	149,218	167,302

15. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	1995 £	1994 £	1995 £	1994 £
Capital allowances in excess of depreciation	-	-	1,581	1,481

The directors do not consider the amounts of unprovided deferred taxation at 30 September 1995 of £1,581 (1994 - £1,481) to be material.

16. FINANCIAL COMMITMENTS

	1995 £	1994 £
Capital commitments		
Contracted for but not provided	-	-
Authorised but not yet contracted for	-	-

Operating lease commitments

At 30 September 1995 the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings £	Other £
Leases which expire:		
Within one year	5,000	-
Within two to five years	17,642	1,732
	22,642	1,732

17. ULTIMATE PARENT COMPANY

In the opinion of the directors, the company's ultimate parent company is Volunteer Energy Corporation, a company incorporated in the United States of America. Copies of the group accounts may be obtained from Volunteer Energy Corporation, 2602 Oakstone Drive, Columbus, Ohio, U.S.A., 43231.



ADDITIONAL INFORMATION

The additional information on page 16 has been prepared from the accounting records of the company. While it does not form part of the statutory financial statements, it should be read in conjunction with them and the auditors' report thereon.


ANALYSIS OF ADMINISTRATIVE EXPENSES
Year ended 30 September 1995

		1995		1994
	£	£	£	£
EMPLOYMENT COSTS				
Salaries	241,233		159,744	
National insurance	25,412		16,104	
		266,645		175,848
ESTABLISHMENT COSTS				
Rent	41,252		22,460	
Removal costs	4,354		5,507	
Insurances	3,419		1,226	
Repairs and maintenance	-		198	
		49,025		29,391
TRAVELLING EXPENSES				
Travel	9,493		4,079	
Car hire	-		75	
Subsistence	1,029		642	
Motor expenses	5,245		4,455	
		15,767		9,251
SELLING AND PROMOTION EXPENSES				
Advertising	185		695	
Promotions	3,431		823	
Entertainment	796		569	
		4,412		2,087
OFFICE AND ADMINISTRATION EXPENSES				
Management fee from parent company	-		39,701	
Office expenses	23,778		12,894	
Telephone	11,194		6,903	
Postage	1,655		1,595	
Subscriptions	2,435		1,849	
Other	5,834		8,255	
Professional charges:				
Legal	2,285		12,932	
Audit and accountancy	3,600		1,200	
		50,781		85,329
DEPRECIATION				
Motor vehicle	8,198		3,091	
Fixtures, fittings and equipment	10,436		5,651	
Leasehold improvements	991		-	
Loss on disposal of fixed assets	380		-	
		20,005		8,742
TOTAL		406,635		310,648